

Message Text

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SUBJECT: INDONESIAN - CALTEX NEGOTIATIONS

REF: JAKARTA 4400

1. SUMMARY: DESPITE SOME IMPROVEMENT IN CALTEX OFFER, INDONESIA REMAINS ADAMANT IN DEMANDING ADDITIONAL \$1 PER BARREL WHEN COMPANY PAYS TAXES APRIL 15. TEXACO OFFICIAL HINTED AT POSSIBLE USG ACTION, BUT WE SEE LITTLE PROSPECTS ANY HELPFUL ROLE AT THIS LATE STAGE. END SUMMARY.

2. ROBERT MCCALL OF TEXACO AND FRED VOUCKE OF SOCAL RETURNED APRIL 10 FOR FURTHER MEETINGS WITH DIRGEN OIL AND GAS WIJARSO ON INDONESIAN DEMAND FOR ADDITIONAL \$1 PER BARREL ON ALL CALTEX PRODUCTION, EXCEPT FOR ADJUSTMENT MENTS ON "FAR AWAY" MARKETS (I.E. EAST COAST, CARIBBEAN AND POSSIBLY EUROPE). CALTEX NEGOTIATORS OFFERED REVISION OF EARLIER OFFER WHICH WOULD HAVE GIVEN INDONESIA \$300,000,000 IN ADDITIONAL REVENUE, FIGURE MENTIONED BY MINMINES SADLI AS MINIMUM REQUIREMENT. WIJARSO, AFTER TELEPHONING SADLI AND PERTAMINA PRESIDENT HARYONO, REPLIED THAT INDONESIA WOULD NOW SETTLE ONLY IN BASIS LETTER GIVEN CLATEX (REFTEL). LETTER DEMANDS \$1, OPENS DOOR TO SOME ADJUSTMENTS ON DISTANT MARKETS.

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3. MCCALL AND BOUCKE, ACCOMPANIED BY CALTEX REPRESENTATIVE

MARTIN, CAME TO SEE ME AFTER MEETING WIJARSO, THEY SAID COMPANY SAW NO WAY ACCEPT INDONESIAN LETTER OR TO PAY APRIL 15 ON BASIS OF DEMAND WITHOUT RISKING STOCKHOLDER SUITS. INDONESIAN ACTION WOULD RESULT EVENTUALLY IN SHARP DECLINE CALTEX OFFTAKE AND INVESTMENT AND WOULD UNDOUBTEDLY AFFECT OTHER COMPANIES' ACTIONS WITH CONSEQUENT SERIOUS CONSEQUENCES FOR INDONESIAN ECONOMY. IF COMPANY PAID UNDER PROTEST OR PUT FUNDS IN ESCROW AND CALLED FOR ARBITRATION, THEY RISKED BAD RELATIONS WITH INDONESIA WHICH THEY DID NOT WANT. THEY SAW THREAT OF HARRASSMENT AND POSSIBLY, EVENTUALLY, NATIONALIZATION. MCCALL SAID HE HAD BEEN ASKED BY GRANVILLE, TEXACO CHAIRMAN, TO ASK ME WHETHER, IN VIEW HESE CIRCUMSTANCES, WHICH ARE BOUND AFFECT U.S.-INDONESIAN RELATIONS, USG SHOULD NOT PERHAPS TAKE SOME ACTION.

4. I EXPLAINED THAT, IN OUR ESTIMATION, GOI FACED POLITICAL SITUATION IN WHICH IT COULD NOT BACK DOWN SUBSTANTIALLY FROM PROMISES OF ADDITIONAL TAKE FROM CALTEX WITHOUT LOSS OF FACE FOR TECHNOCRATS AND, PERHAPS, PRESIDENT, HIMSELF. CALTEX FACED SITUATION, WHETHER JUST OR NOT, IN WHICH KEY GOVERNMENT AND POLITICAL FIGURES JUST DID NOT BELIEVE COMPANY UNABLE PAY MORE. GOVERNMENT RELUCTANT ACCEPT CALTEX OFFER WHICH PROVIDES ADDITIONAL REVENUE THROUGH INCREASED LIFTINGS IF PROFIT SPLIT REMAINS SUBSTANTIALLY SAME. GOVERNMENT HAD HEARD CALTEX CASE, WAS AWARE OF POSSIBILITY DIMINISHED PRODUCTION AND INVESTMENT, BUT IN LIGHT FORTHCOMING OPEC MEETING, POLITICAL PRESSURES, AND COMING ELECTION, HAD CHOSEN POLITICAL PATH. IN SUCH CASE, IT WAS DIFFICULT SEE WHAT ROLE USG COULD EFFECTIVELY PLAY.

5. THERE WAS FURTHER DISCUSSION OF POSSIBLE ALTERNATIVES WHICH MIGHT HAVE POLITICAL APPEAL SUCH AS ACCELERATION TRANSFORMATION CALTEX CONTRACT OF WORK TO PRODUCTION SHARING CONTRACT. BOUCKE SAID THIS HAD BEEN DISCUSSED, BUT TIME WAS TOO SHORT FOR DRAMATIC NEW IDEAS. MCCALL SAID HE WOULD BE RELUCTANT TAKE THIS PATH IN VIEW UNCERTAINTIES OVER FUTURE ARRANGEMENTS FOR PRODUCTION SHARING.

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6. GRANVILLE WILL BE VISITING WASHINGTON APRIL 13 AND MAY APPROACH DEPARTMENT RE POSSIBLE USG ACTION WE HAVE PLAYED ROLE IN TRYING ACQUAINT GOI WITH FACTS AS WE SAW THEM, BUT TO GO BEYOND THIS AT THIS TIME WOULD BE TO PLEAD CALTEX CASE. IN DOING SO WE WOULD FACE NOT ONLY POLITICAL PROBLEMS BUT SERIOUS CALTEX CREDIBILITY GAP IN INDONESIA. WE ARE OBVIOUSLY IN FOR DIFFICULT TIME IN

THIS AREA, BUT I AM INCLINED TO THINK OFFICIAL RELATIONS
WILL WEATHER STORM MORE SATISFACTORILY IF WE DO NOT
WEIGN IN OFFICIALLY AT THIS STAGE.
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